MAHER SHOES LIMITED

ANNUAL REPORT

January 1st, 1977

PRESIDENT'S MESSAGE TO THE SHAREHOLDERS

Although sales were $31,553,000, an increase of 7.5% and continuing store sales increased 11.9%, the year was characterized through an ambitious program, where our national operations were consolidated into three cohesive marketing divisions, enabling us to better utilize talent and greatly expand our energies on the merchandising areas where we have built a consumer franchise or a strong market position. In this regard, the specialty divisions were combined into one merchandising group from coast to coast, the self-serve division was phased out, 17 existing Maher stores in Ontario were converted to Copp stores, significantly broadening this division's strategies from just western Canada, 3 new stores were opened and 7 long standing stores were completely remodelled and modernized. Through this period, some impact on earnings was felt in disposing of inventories and the heavy redundancy costs associated with discontinued and reduced operations.

Looking ahead at 1977, currently we have a number of new leases under review, of which we now expect at least 12 of these to be finalized and opened this year. Our principal objective will be to further expand on the company's many strengths, while at the same time creating a stronger financial condition, through improved inventory management, more effective cost reduction and further improvement in working capital, which we are pleased to note has further increased this year to $4,401,000 from $3,848,000, a current ratio of 1.9:1.

Management sincerely appreciates the continued loyal support of our people throughout the organization, for it is through their dedication, beliefs and resourcefulness that we view the future with much confidence and optimism.

March 15, 1977.

Thomas P. Wilson
President

MAHER SHOES LIMITED
(Incorporated under the laws of Ontario)

CONSOLIDATED BALANCE SHEET

ASSETS

	January 1, 1977	January 3, 1976
CURRENT ASSETS		
Cash	$ 1,275,000	$ 818,000
Accounts receivable	415,000	289,000
Inventories	7,468,000	7,560,000
Prepaid expenses	146,000	171,000
	9,304,000	8,838,000
MORTGAGES RECEIVABLE	38,000	39,000
INVESTMENT IN BARCLEY-LANES SHOES	227,000	257,000
FIXED ASSETS		
Building	116,000	116,000
Fixtures, equipment and leaseholds	6,622,000	6,053,000
	6,738,000	6,169,000
Less accumulated depreciation	2,916,000	2,405,000
	3,822,000	3,764,000
Land	38,000	38,000
	3,860,000	3,802,000
	$13,429,000	$12,936,000

Approved by the Board

L. R. CHESTER, *Director*

T. P. WILSON, *Director*

LIABILITIES

	January 1, 1977	January 3, 1976
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 2,294,000	$ 1,939,000
Income and other taxes payable	368,000	455,000
Payable to parent and affiliated companies	2,218,000	2,524,000
Dividends payable	23,000	—
Principal due within one year on long term debt	—	72,000
	4,903,000	4,990,000
LONG TERM DEBT (note 2)		
6¾ % Sinking fund debenture, series A, maturing April 1, 1987, less current portion	1,100,000	1,203,000
DEFERRED INCOME TAXES	338,000	318,000
SHAREHOLDERS' EQUITY		
CAPITAL STOCK		
Authorized		
156,675 60¢ Cumulative, non-redeemable preference shares without par value		
400,000 Common shares without par value		
Issued		
156,666 Preference shares	1,413,000	1,413,000
209,900 Common shares	1,231,000	1,231,000
	2,644,000	2,644,000
RETAINED EARNINGS	4,444,000	3,781,000
	7,088,000	6,425,000
	$13,429,000	$12,936,000

Long term leases (note 3)

MAHER SHOES LIMITED

CONSOLIDATED STATEMENT OF INCOME

	52 weeks ended January 1, 1977	52 weeks ended January 3, 1976
Sales	$31,553,000	$29,359,000
Costs and expenses before the undernoted	28,959,000	26,637,000
Depreciation	644,000	556,000
Debenture interest and expense	79,000	90,000
Other interest	346,000	371,000
	30,028,000	27,654,000
	1,525,000	1,705,000
Equity in earnings (loss) of Barcley-Lanes Shoes	(30,000)	18,000
Income before income taxes	1,495,000	1,723,000
Income taxes		
Current	718,000	808,000
Deferred	20,000	61,000
	738,000	869,000
NET INCOME FOR THE YEAR	$ 757,000	$ 854,000
EARNINGS PER COMMON SHARE (after providing for annual dividends on preference shares)	$ 3.16	$ 3.62

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

	52 weeks ended January 1, 1977	52 weeks ended January 3, 1976
BALANCE AT BEGINNING OF YEAR	$ 3,781,000	$ 3,021,000
Net income for the year	757,000	854,000
	4,538,000	3,875,000
Dividends		
Preference shares	94,000	94,000
BALANCE AT END OF YEAR	$ 4,444,000	$ 3,781,000

MAHER SHOES LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	52 weeks ended January 1, 1977	52 weeks ended January 3, 1976
WORKING CAPITAL DERIVED FROM		
Operations		
Net income for the year	$ 757,000	$ 854,000
Items not involving working capital		
Depreciation	644,000	556,000
Deferred income taxes	20,000	61,000
Loss on disposal of fixed assets	9,000	42,000
Equity in (earnings) loss of Barcley-Lanes Shoes	30,000	(18,000)
	1,460,000	1,495,000
Decrease in mortgages receivable	1,000	27,000
Proceeds from sale of fixed assets	16,000	6,000
	1,477,000	1,528,000
WORKING CAPITAL APPLIED TO		
Additions to fixed assets	727,000	739,000
Dividends	94,000	94,000
Reduction of non-current portion of long term debt	103,000	76,000
Investment in Barcley-Lanes Shoes net of fixed assets of $187,000 transferred to Partnership at fair market value	—	52,000
	924,000	961,000
INCREASE IN WORKING CAPITAL	553,000	567,000
WORKING CAPITAL AT BEGINNING OF YEAR	3,848,000	3,281,000
WORKING CAPITAL AT END OF YEAR	$ 4,401,000	$ 3,848,000

MAHER SHOES LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
January 1, 1977

1. SUMMARY OF ACCOUNTING POLICIES

(a) Basis of consolidation
The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary company, Copp The Shoe Man Limited.

(b) Inventories
Inventories are valued at the lower of cost and net realizable value.

(c) Investment in Barcley-Lanes Shoes
Barcley-Lanes Shoes is a partnership formed in the 1976 fiscal year, 50% of which is owned by the Company and the other 50% is owned by Savage Shoes (1970) Limited. The Company's share of the earnings (losses) of the partnership, which operates retail shoe stores, has been included in these financial statements on an equity basis.

(d) Fixed assets
Fixed assets are stated in the accounts at cost. Depreciation charged to operations is based on the following:

Building	2½ % straight line
Fixtures and equipment	10% straight line
Leaseholds	10% straight line

It is the Company's policy to remove from the accounts the cost and accumulated depreciation of fully depreciated fixed assets.

(e) Income taxes
The Company charges earnings with income taxes currently payable and also with income taxes deferred by claiming certain costs for income tax purposes in excess of related costs charged to income. The accumulated total of such income tax deferments is reflected in the consolidated balance sheet as "Deferred income taxes".

2. LONG TERM DEBT
The 6¾ % sinking fund debenture is secured by a first floating charge on the assets of the Company. The more significant of the covenants of the Trust Deed restrict the Company from reducing consolidated working capital below $1,000,000 and from paying dividends on common shares if such payments would reduce consolidated working capital below $1,250,000.
At January 1, 1977, the Company had a sinking fund credit of $103,000 which is sufficient to meet the $80,000 payment due in the year ending January 7, 1978. The payments required in 1977 and subsequent years average approximately $106,000 per annum to April, 1987, the date of maturity.

3. LONG TERM LEASES
At January 1, 1977, the Company has entered into long term leases on retail outlets for periods expiring between 1977 and 1998. From the balance sheet date, these leases provide for minimum annual rentals over the next five years of approximately $1,713,000, exclusive of taxes, percentage rentals and other related occupancy costs.

4. PENSION PLAN
Current service pension costs are charged to operations each year and unfunded past service costs are being amortized in annual equal amounts of $22,000 to 1989. As a result of an actuarially computed surplus in the pension plan, the liability for unfunded past service costs was reduced by $240,000 during the year and approximated $201,000 at January 1, 1977.

5. OTHER STATUTORY INFORMATION
Remuneration of directors and senior officers amounted to $249,000 (1976 – $229,000).

6. ANTI-INFLATION LEGISLATION
The Company and its subsidiary are subject to the Anti-Inflation Act which provides for the restraint of profit margins, prices and compensation. In management's opinion the Company and its subsidiary have complied with the provisions of this Act for the year ended January 1, 1977.

AUDITORS' REPORT

To the Shareholders of Maher Shoes Limited

We have examined the consolidated balance sheet of Maher Shoes Limited as at January 1, 1977 and the consolidated statements of income, retained earnings and changes in financial position for the 52 weeks then ended. Our examination of Maher Shoes Limited was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. For Copp The Shoe Man Limited, the subsidiary company, we have relied on the report of the auditors who have examined their financial statements.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at January 1, 1977 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada
February 23, 1977

Thorne Riddell & Co.
Chartered Accountants

File

MAHER SHOES LIMITED

INTERIM REPORT TO SHAREHOLDERS

Twenty-Six Weeks Ended July 2nd, 1977

TO THE SHAREHOLDERS:

Sales for the six months ended July 2nd, 1977, decreased 1.8% to $13,534,000 from $13,786,000 for the corresponding period last year. Operations resulted in a net loss of $74,000 compared to a net loss of $28,000 last year.
During the period under review, while expense control remained quite satisfactory, sales in all divisions were flat and sluggish, with gross margins under continuous pressure from severe price competition and excessive markdowns reducing inventories. 5 new stores were opened, while 9 units were closed. A further 9 new store openings and 4 closings are planned for the remainder of the year.

While the economic outlook for the short term in Canada continues to be uncertain, traditionally the second half of the fiscal year produces greater sales and earnings for the company. With continued tight expense control, we remain confident that 1977 can be a satisfactory year.

It is estimated that if the proposed 3% inventory allowance is passed by all income tax authorities, the tax reduction could amount to approximately $100,000 for the year. None of this amount has been reflected in the first half results.

Toronto, Canada
August 10, 1977.

T. P. Wilson,
President

CONSOLIDATED STATEMENT OF EARNINGS
(UNAUDITED)

	26 WEEKS ENDED	
	July 2, 1977	July 3, 1976
Sales	$13,534,000	$13,786,000
Earnings from Operations before the Following Charges	363,000	477,000
Depreciation and Amortization	326,000	303,000
Interest on Short Term Debt	122,000	159,000
Interest on Debentures	37,000	41,000
Equity in Loss of Barcley-Lanes Shoes	21,000	30,000
	506,000	533,000
Loss before Income Taxes	(143,000)	(56,000)
Income Taxes Refundable	(69,000)	(28,000)
Net Loss	$ (74,000)	$ (28,000)
Loss per Common Share	$ (0.58)	$ (0.36)

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

(UNAUDITED)

	26 WEEKS ENDED July 2, 1977	26 WEEKS ENDED July 3, 1976
Working Capital Derived From:		
Net Loss for the Period	$ (74,000)	$ (28,000)
Add Depreciation and Other Charges not involving Working Capital	364,000	356,000
Total Funds from Operations	290,000	328,000
Proceeds from Sale of Fixed Assets	6,000	—
Total Funds Provided	296,000	328,000
Working Capital Applied To:		
Fixtures, Equipment and Leasehold Improvement Additions	265,000	349,000
Dividends	47,000	47,000
Reduction in Non-Current Portion of Long Term Debt	—	3,000
Total Funds Applied	312,000	399,000
Decrease in Working Capital	(16,000)	(71,000)
Working Capital, Beginning of Period	4,401,000	3,848,000
Working Capital, End of Period	$ 4,385,000	$ 3,777,000